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 **ÖSTERREICHISCHES INSTITUT FÜR
WIRTSCHAFTSFORSCHUNG**

**Crisis in the Euro Area Delays
Cyclical Upturn in Austria
Economic Outlook for 2013 and 2014**

June 2013



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Austrian Institute of Economic Research

Abstract

The recovery in the euro area suggested by several leading indicators early this year has so far not set in. Hence, demand and output in Austria disappointed in the first quarter of 2013. For the second half of the year, WIFO expects a gradual pick-up, leaving GDP growth for the whole year at a modest 0.4 percent, before strengthening to a rate of +1.6 percent in 2014.

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Crisis in the Euro Area Delays Cyclical Upturn in Austria

Economic Outlook for 2013 and 2014

The recovery in the euro area suggested by several leading indicators early this year has so far not set in. Hence, demand and output in Austria disappointed in the first quarter of 2013. For the second half of the year, WIFO expects a gradual pick-up, leaving GDP growth for the whole year at a modest 0.4 percent, before strengthening to a rate of +1.6 percent in 2014.

While the business cycle recovery keeps progressing in the USA, Japan and parts of South-East Asia, South America and Africa, activity remains sluggish in Europe and in particular in the euro area. Several countries in the European periphery have taken measures to boost price competitiveness and lower the external deficit. Yet, due to the low export ratios of the countries concerned and the subdued growth of world trade¹, the negative repercussions of these measures for the domestic economy prevailed. Given banks' reservation in granting new credit, shortfalls of internal financing can in many instances not be compensated by external borrowing. At the same time, the restraint in government demand in many countries is heavily weighing on growth.

In Austria, the momentum of exports and investment keeps being muted by the weak international environment. The limited real income gains and increased saving by private households constitute a drag on consumer demand. Real GDP is expected to edge up by only 0.4 percent in 2013. Employment growth is losing pace (2013 +0.7 percent, 2014 +0.8 percent), while the unemployment rate moves up to 7.5 percent and 7.6 percent, respectively. Inflation is gradually abating to 2.2 percent on annual average 2013 and 2.0 percent in 2014.

¹ World trade increased by 1.9 percent in 2012 (average 1992-2012 +6.0 percent) and hence significantly less than global output (+3.2 percent). According to the OECD, a lower-than-output increase of world trade has been observed only six times over the last 50 years (most recently during the cyclical downturns of 2001 and 2009).

World trade usually grows swiftly with solid output growth (recorded at +3.2 percent in 2012 for the global economy; average 1992-2012 +3.6 percent); thus, it is expected to revert to its long-term trend increase of 6.0 percent by 2014. As a strong export performer, the Austrian economy stands to benefit from this revival: export growth should thus accelerate in 2014 and provide stimulus to domestic private investment. Private households are expected to use a larger part of their income gains in 2014 for consumption. In all, real GDP growth is projected to pick up to an annual 1.6 percent in 2014.

Cut-off date: 28 June 2013

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Methodological Notes and Short Glossary

Period comparisons

Time-series comparisons with the previous period, e.g., the previous quarter, are adjusted for seasonal effects. They also include effects that result from a different number of working days in the period (e.g., Easter). In the text, reference is made to "seasonally and working day adjusted changes".

The phrase "changed compared with a year before . . .", on the other hand, describes a change compared with the same period a year before and refers to unadjusted time series.

The analysis of the seasonally and working day adjusted development provides more precise information about the actual course of economic activity and shows turning points sooner. However, the data are subject to additional revisions as seasonal adjustment is based on statistical methods.

Carry-over (in economic growth)

The carry-over identifies the impact of the dynamics of a series (in seasonally adjusted figures) during one year (t_0) on the annual percentage change in the following year (t_1). It is defined as the annual percentage change in year t_1 , if GDP in t_1 remains constant at the level of the fourth quarter of year t_0 (in seasonally adjusted terms).

Average rates of change

The time given refers to the initial and the final value of the period of computation: hence the average rate 2005-2010 comprises as the first rate of change that from 2005 to 2006, and as the last that from 2009 to 2010.

Real and nominal values

In principle, the values shown must be understood as real values, i.e., adjusted for price effects. Whenever values are shown as nominal values (e.g., foreign trade statistics), this is specifically mentioned.

Production Sector

This term comprises the NACE-2008 sections B, C and D (Mining and Quarrying, Manufacturing, Energy Supply) and is here used in an international comparison.

Inflation, CPI und HICP

The inflation rate measures changes in consumer prices compared with a year before. The Consumer Price Index (CPI) is a measure of national inflation. The Harmonised Index of Consumer Prices (HICP) is the basis for comparable measurement of inflation in the EU and for the evaluation of price stability in the euro area (see <http://www.statistik.at/>).

Core inflation as a monetary policy indicator is not clearly defined. WIFO follows the common practice of using the inflation rate excluding the product categories unprocessed food and energy for core inflation. Thus just under 87 percent of the goods and services contained in the consumer price index (CPI 2010) are included in the calculation of core inflation.

WIFO Business Cycle Survey and WIFO Investment Survey

The WIFO Business Cycle Survey is a monthly survey in which around 1,500 Austrian firms are asked to assess their current and future economic situation. The WIFO Investment Survey is conducted twice a year, asking companies about their investment activity (<http://www.konjunkturtest.at/>). The indicators are balances between the positive and negative responses expressed as a percentage of the total number of firms sampled.

Unemployment rate

Austrian national definition: The number of persons registered as job seekers with the Public Employment Service expressed as a percentage of the dependent labour force. Labour force is the sum of the unemployed and the persons in dependent employment (measured in standard employment relationships). Database: registrations with the Public Employment Service (AMS) and Association of Austrian social insurance agencies.

Definition according to ILO and Eurostat: Any person who is not gainfully employed and is actively seeking work is considered unemployed. Gainfully employed persons comprise all persons who during the reference week worked for at least one hour in a self-employed capacity or in paid employment. Persons receiving child-care benefit and apprentices are classified as gainfully employed, whereas persons in military service or persons carrying out alternative service are not. The unemployment rate is the number of unemployed persons expressed as a percentage of the total labour force (unemployed persons plus gainfully employed persons). Database: data from household surveys ("Mikrozensus").

Terms used in connection with the national definition of the unemployment rate

Persons in training: Persons who at a set date are enrolled in AMS (Public Employment Service) training programmes. When calculating the unemployment rate, their number is not taken into account either in the denominator or in the numerator.

Persons in dependent active employment: "Persons in dependent employment" include persons receiving child-care benefit, as well as persons in military service with a valid employment contract. By deducting their number one arrives at the number of "persons in dependent active employment".

WIFO
Projections - June 2013

Main results

Percentage changes from previous year

| | | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|------------------------|--------|--------|--------|--------|------------------|--------|
| | | | | | | Forecasts | |
| GDP | | | | | | | |
| Volume | | - 3.8 | + 2.1 | + 2.7 | + 0.8 | + 0.4 | + 1.6 |
| Value | | - 2.3 | + 3.7 | + 5.0 | + 3.4 | + 2.5 | + 3.5 |
| Manufacturing¹ , volume | | - 12.7 | + 7.0 | + 8.2 | + 1.1 | + 1.0 | + 3.5 |
| Wholesale and retail trade , volume | | - 0.3 | + 1.4 | + 1.3 | - 1.4 | - 0.8 | + 1.3 |
| Private consumption expenditure , volume | | + 1.1 | + 1.7 | + 0.7 | + 0.4 | + 0.2 | + 0.9 |
| Gross fixed investment , volume | | - 7.8 | + 0.8 | + 7.3 | + 1.2 | + 1.0 | + 1.5 |
| Machinery and equipment | | - 10.6 | + 6.0 | + 12.1 | + 0.3 | + 1.5 | + 2.0 |
| Construction | | - 7.1 | - 2.7 | + 4.4 | + 1.2 | + 0.5 | + 1.1 |
| Exports of goods² | | | | | | | |
| Volume | | - 18.3 | + 13.0 | + 7.9 | + 0.2 | + 1.8 | + 5.5 |
| Value | | - 20.2 | + 16.7 | + 11.3 | + 1.4 | + 2.0 | + 6.6 |
| Imports of goods² | | | | | | | |
| Volume | | - 14.1 | + 10.9 | + 8.5 | - 0.4 | + 0.8 | + 5.2 |
| Value | | - 18.4 | + 16.5 | + 15.3 | + 0.7 | + 0.8 | + 6.0 |
| Current balance | € bn | + 7.49 | + 9.74 | + 4.08 | + 5.47 | + 7.91 | + 9.19 |
| | as a percentage of GDP | + 2.7 | + 3.4 | + 1.4 | + 1.8 | + 2.5 | + 2.8 |
| Long-term interest rate³ | percent | 3.9 | 3.2 | 3.3 | 2.4 | 1.8 | 1.8 |
| Consumer prices | | + 0.5 | + 1.9 | + 3.3 | + 2.4 | + 2.2 | + 2.0 |
| Unemployment rate | | | | | | | |
| Eurostat definition ⁴ | percent | 4.8 | 4.4 | 4.2 | 4.3 | 5.0 | 5.1 |
| National definition ⁵ | percent | 7.2 | 6.9 | 6.7 | 7.0 | 7.5 | 7.6 |
| Persons in active dependent employment⁶ | | - 1.5 | + 0.8 | + 1.9 | + 1.4 | + 0.7 | + 0.8 |
| General government financial balance | | | | | | | |
| according to Maastricht definition | | | | | | | |
| as a percentage of GDP | | - 4.1 | - 4.5 | - 2.5 | - 2.5 | - 2.3 | - 1.7 |

¹ Value added, including mining and quarrying. ² According to Statistics Austria. ³ 10-year central government bonds (benchmark). ⁴ According to Eurostat Labour Force Survey. ⁵ Public Employment Service Austria, percent of total labour force excluding self employed. ⁶ Excluding parental leave and military service.

WIFO
Projections - June 2013

World economy

Percentage changes from previous year

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|-------|-------|-------|-------|------------------|------|
| | | | | | Forecasts | |
| Real GDP | | | | | | |
| World | -0.6 | +5.2 | +4.0 | +3.2 | +3.2 | +3.8 |
| USA | -3.1 | +2.4 | +1.8 | +2.2 | +1.8 | +2.4 |
| Japan | -5.5 | +4.7 | -0.6 | +1.9 | +1.3 | +1.8 |
| EU 27 | -4.3 | +2.1 | +1.6 | -0.3 | -0.3 | +1.2 |
| Euro area 16 | -4.4 | +2.0 | +1.4 | -0.6 | -0.7 | +1.0 |
| Germany | -5.1 | +4.2 | +3.0 | +0.7 | +0.2 | +1.8 |
| New member states ¹ | -3.2 | +2.3 | +3.3 | +0.8 | +0.8 | +2.1 |
| China | +9.2 | +10.4 | +9.3 | +7.8 | +7.5 | +8.0 |
| World trade, volume | -12.4 | +14.5 | +6.0 | +1.9 | +3.2 | +6.0 |
| Market growth² | -10.9 | +11.4 | +6.3 | +1.6 | +1.8 | +5.5 |
| Primary commodity prices³ | | | | | | |
| HWWI Index, total | -34.7 | +28.9 | +28.6 | -2.8 | -6 | +2 |
| Excluding energy | -28.4 | +31.9 | +19.2 | -14.4 | -5 | +10 |
| Crude oil prices | | | | | | |
| Brent, USD per barrel | 61.5 | 79.5 | 111.3 | 111.6 | 105 | 105 |
| Exchange rate | | | | | | |
| USD per euro | 1.393 | 1.327 | 1.392 | 1.286 | 1.30 | 1.30 |

¹ Bulgaria, Czech Republic, Hungary, Latvia, Lithuania, Poland, Romania.

² Real import growth of trading partners weighted by Austrian export shares.

³ In USD.

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Projections - June 2013

Key policy indicators

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|-------|-------|-------|-------|---------------------------------------|-------|
| | | | | | Forecasts | |
| Fiscal policy | | | | | | |
| | | | | | As a percentage of GDP | |
| General government financial balance | | | | | | |
| according to Maastricht definition | - 4.1 | - 4.5 | - 2.5 | - 2.5 | - 2.3 | - 1.7 |
| General government primary balance | - 1.3 | - 1.8 | + 0.2 | + 0.1 | + 0.3 | + 0.8 |
| Monetary policy | | | | | | |
| | | | | | Percent | |
| 3-month interest rate | 1.2 | 0.8 | 1.4 | 0.6 | 0.2 | 0.2 |
| Long-term interest rate ¹ | 3.9 | 3.2 | 3.3 | 2.4 | 1.8 | 1.8 |
| | | | | | Percentage changes from previous year | |
| Effective exchange rate | | | | | | |
| Nominal | + 0.9 | - 2.5 | + 0.1 | - 1.5 | + 0.8 | + 0.2 |
| Real | + 0.4 | - 2.7 | + 1.2 | - 1.4 | + 1.3 | + 0.1 |

¹ 10-year central government bonds (benchmark).

WIFO
Projections - June 2013

Productivity

Percentage changes from previous year

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|--------|-------|-------|-------|--------------------------|-------|
| | | | | | F o r e c a s t s | |
| Total economy | | | | | | |
| Real GDP | - 3.8 | + 2.1 | + 2.7 | + 0.8 | + 0.4 | + 1.6 |
| Employment ¹ | - 0.9 | + 0.7 | + 1.8 | + 1.3 | + 0.7 | + 0.9 |
| Productivity (GDP per employment) | - 2.9 | + 1.4 | + 0.9 | - 0.4 | - 0.3 | + 0.7 |
| Manufacturing | | | | | | |
| Production ² | - 13.0 | + 7.2 | + 8.5 | + 1.3 | + 1.0 | + 3.5 |
| Employees ³ | - 5.3 | - 1.3 | + 1.9 | + 1.7 | + 0.1 | + 0.1 |
| Productivity per hour | - 4.7 | + 5.4 | + 6.6 | + 0.2 | + 1.4 | + 3.0 |
| Working hours per day per employee ⁴ | - 3.5 | + 3.0 | - 0.1 | - 0.6 | - 0.5 | + 0.4 |

¹ Dependent and self-employed according to National Accounts definition.

² Value added, volume.

³ According to Federation of Austrian Social Security Institutions.

⁴ According to 'Konjunkturerhebung' of Statistics Austria.

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Projections - June 2013

Private consumption, income and prices

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|-------|-------|-------|-------|-------|
| | Forecasts | | | | | |
| | Percentage changes from previous year, volume | | | | | |
| Private consumption expenditure | + 1.1 | + 1.7 | + 0.7 | + 0.4 | + 0.2 | + 0.9 |
| Durables | + 4.8 | + 2.3 | + 1.8 | - 4.8 | - 4.2 | + 0.8 |
| Non-durables and services | + 0.6 | + 1.6 | + 0.6 | + 1.0 | + 0.7 | + 0.9 |
| Household disposable income | + 0.3 | - 0.6 | - 0.9 | + 0.6 | + 0.4 | + 0.9 |
| | As a percentage of disposable income | | | | | |
| Household saving ratio¹ | 11.2 | 9.1 | 7.4 | 7.7 | 7.9 | 8.0 |
| Household saving ratio² | 10.6 | 8.6 | 7.1 | 7.3 | 7.5 | 7.6 |
| | Percentage changes from previous year | | | | | |
| Direct lending to domestic non-banks³ | - 1.3 | + 2.9 | + 2.6 | + 0.0 | + 0.9 | + 2.9 |
| Inflation rate | | | | | | |
| National | 0.5 | 1.9 | 3.3 | 2.4 | 2.2 | 2.0 |
| Harmonised | 0.4 | 1.7 | 3.6 | 2.6 | 2.3 | 2.0 |
| Core inflation ⁴ | 1.5 | 1.2 | 2.8 | 2.3 | 2.4 | 2.0 |

¹ Including adjustment for the change in net equity of households in pension fund reserves.

² Excluding adjustment for the change in net equity of households in pension fund reserves.

³ End of period.

⁴ Excluding unprocessed food (meat, fish, fruits, vegetables) and energy items.

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Projections - June 2013

Earnings and international competitiveness

Percentage changes from previous year

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|--|--------|-------|-------|-------|------------------|-------|
| | | | | | Forecasts | |
| Wages and salaries per employee¹ | | | | | | |
| Gross earnings | + 1.7 | + 1.0 | + 1.7 | + 2.9 | + 2.4 | + 2.4 |
| Gross real earnings² | + 1.2 | - 0.8 | - 1.5 | + 0.4 | + 0.2 | + 0.4 |
| Net real earnings² | + 3.0 | - 1.1 | - 2.0 | + 0.0 | - 0.1 | + 0.1 |
| Unit labour costs | | | | | | |
| Total economy | + 4.8 | - 0.3 | + 0.8 | + 3.3 | + 2.7 | + 1.6 |
| Manufacturing | + 11.5 | - 6.1 | - 3.9 | + 3.1 | + 1.7 | - 0.7 |
| Effective exchange rate - manufactures | | | | | | |
| Nominal | + 0.7 | - 2.6 | + 0.0 | - 1.5 | + 0.9 | + 0.1 |
| Real | + 0.4 | - 2.7 | + 1.1 | - 1.4 | + 1.4 | + 0.1 |

¹ Employees according to National Accounts definition.

² Deflated by CPI.

WIFO
Projections - June 2013

Labour market

Changes from previous year (1,000^s)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | |
|--|-------------------------|--------|--------|--------|------------------|--------|------|
| | | | | | Forecasts | | |
| Demand for labour | | | | | | | |
| Persons in active employment ¹ | - 44.0 | + 32.4 | + 70.4 | + 52.2 | + 26.5 | + 32.5 | |
| Employees ² | - 48.5 | + 25.5 | + 63.3 | + 47.2 | + 22.0 | + 28.0 | |
| <i>Percentage changes from previous year</i> | - 1.5 | + 0.8 | + 1.9 | + 1.4 | + 0.7 | + 0.8 | |
| Nationals | - 43.0 | + 5.8 | + 25.7 | + 9.0 | + 2.0 | + 3.0 | |
| Foreign workers | - 5.5 | + 19.7 | + 37.7 | + 38.1 | + 20.0 | + 25.0 | |
| Self-employed ³ | + 4.5 | + 6.9 | + 7.1 | + 5.0 | + 4.5 | + 4.5 | |
| Labour supply | | | | | | | |
| Population of working age (15 to 64 years) | + 17.3 | + 21.6 | + 37.0 | + 15.6 | + 3.0 | + 5.5 | |
| (15 to 59 years) | + 11.1 | + 8.9 | + 17.1 | + 19.5 | + 7.2 | + 5.3 | |
| Labour force ⁴ | + 4.0 | + 22.9 | + 66.3 | + 66.1 | + 47.5 | + 41.5 | |
| Surplus of labour | | | | | | | |
| Registered unemployed ⁵ | + 48.1 | - 9.5 | - 4.1 | + 13.9 | + 21.0 | + 9.0 | |
| 1,000 ^s | 260.3 | 250.8 | 246.7 | 260.6 | 281.6 | 290.6 | |
| Unemployed persons in training | 1,000 ^s 64.1 | 73.2 | 63.2 | 66.6 | 74.6 | 76.6 | |
| Unemployment rate | | | | | | | |
| Eurostat definition ⁶ | percent | 4.8 | 4.4 | 4.2 | 4.3 | 5.0 | 5.1 |
| Percent of total labour force ⁵ | percent | 6.5 | 6.2 | 6.0 | 6.3 | 6.7 | 6.8 |
| National definition ^{5,7} | percent | 7.2 | 6.9 | 6.7 | 7.0 | 7.5 | 7.6 |
| Employment rate | | | | | | | |
| Persons in active employment ^{1,8} | percent | 64.7 | 65.1 | 65.9 | 66.6 | 67.0 | 67.5 |
| Total employment (Eurostat) ^{6,8} | percent | 71.6 | 71.7 | 72.1 | 72.5 | 72.6 | 73.0 |

¹ Excluding parental leave and military service. ² According to Federation of Austrian Social Security Institutions.

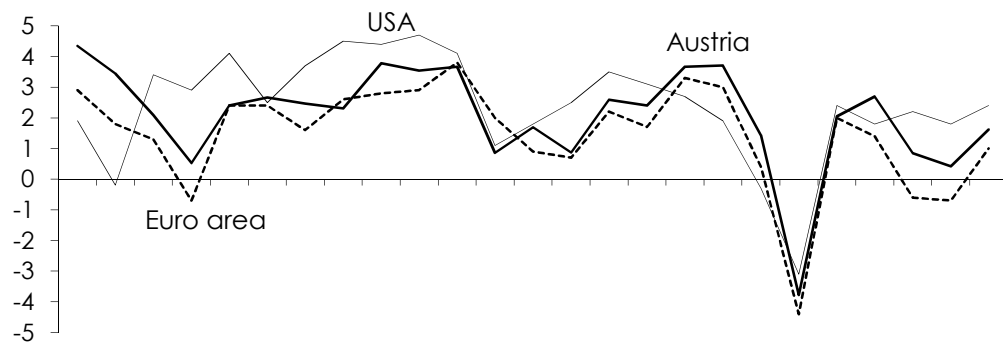
³ According to WIFO. ⁴ Persons in active employment plus unemployment.

⁵ According to Public Employment Service Austria ⁶ According to Eurostat Labour Force Survey.

⁷ Percent of total labour force excl. self-employed. ⁸ Percent of population of working age (15 to 64 years).

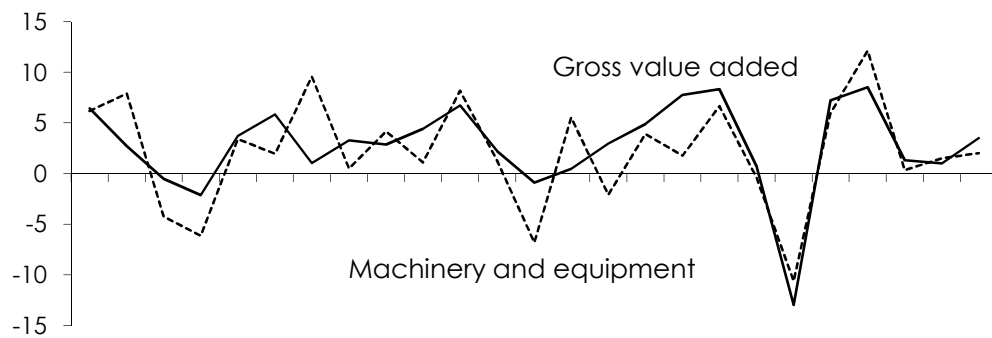
Growth of real GDP

Percent



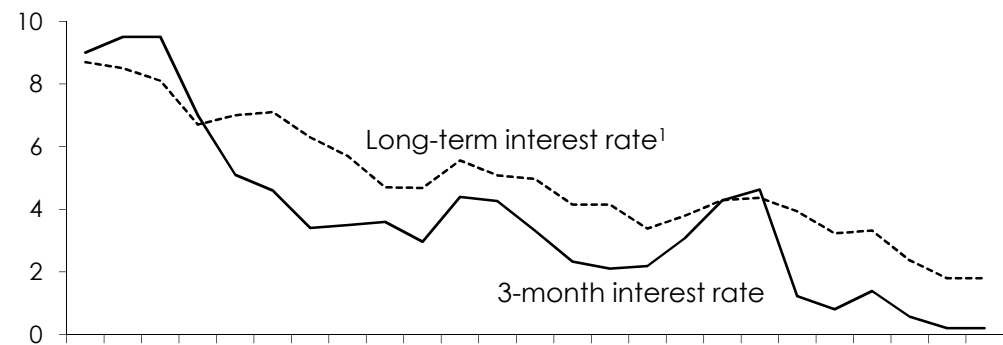
Manufacturing and investment

Percentage changes from previous year, volume



Short-term and long-term interest rates

Percent



Trade

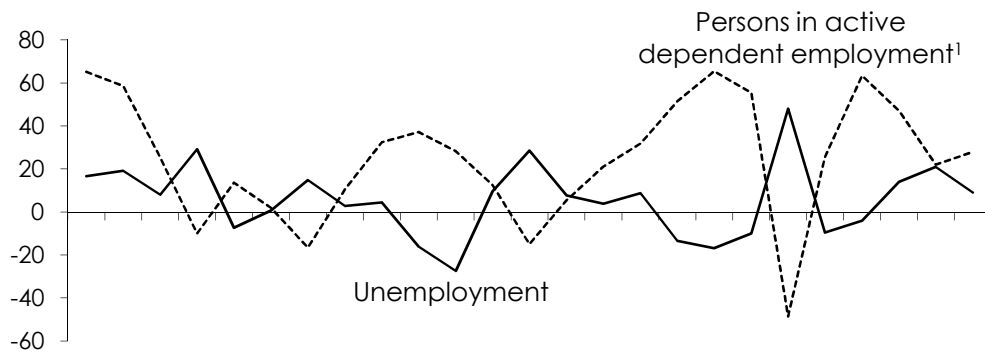
Percentage changes from previous year, volume



¹ 10-year central government bonds (benchmark).

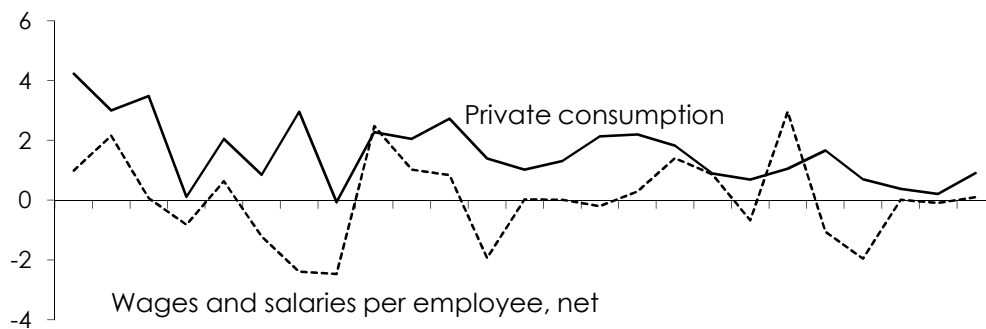
Employment and unemployment

1,000^s from previous year



Consumption and income

Percentage changes from previous year, volume



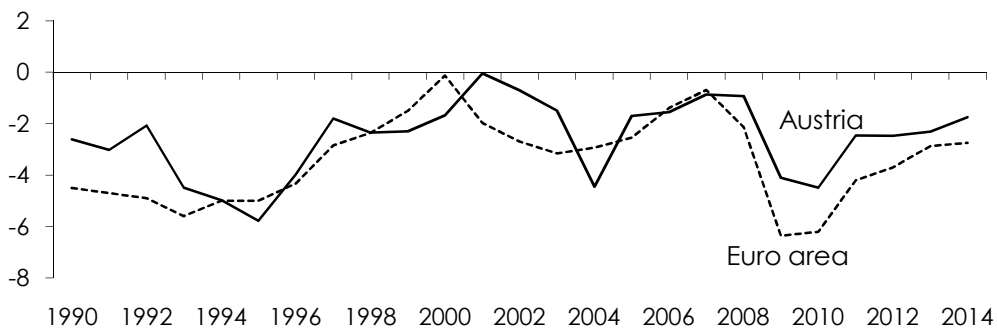
Inflation and unit labour costs

Percentage changes from previous year



General government financial balance

As a percentage of GDP



¹ Excluding parental leave, military service, and unemployed persons in training.